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ECONOMIC PLANNING AS AN INSTRUMENT OF DEVELOPMENT

By David KOCHAV,
Director,
Economic Planning Authority,
Israel

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ECONOMIC PLANNING AS AN INSTRUMENT OF DEVELOPMENT

by

DAVID KOCHAV
Director, Economic Planning Authority (Israel)

SUMMARY

Economic planning is a systematic process of determining both the objectives of a national economy in quantitative terms, and the means for carrying them out. It is a pre-condition for achieving one of the central assignments of the whole world - a rapid economic development.

There are three factors to be taken into account while preparing a development program: The objectives of an economic program, the "external" factors which influence it and the policies and means by which it will be carried out.

The objectives of economic programs should be ambitious and yet realistic. Determining them quantitatively is important since this enable the examination of the quantitative relations between the objectives and the means for reaching them. The central objective is to ensure a rapid rate of growth of the per capita national product; an annual rate of 2 per cent is considered to be satisfactory.

"External" factors - which have a great impact on an economic plan although it cannot control them - and the assumptions of the planners regarding them, should be spelled out in order to clarify the fact that a change in these factors would influence the posibilities of carrying out the program. These factors are ones such as the world price for some raw materials, the size of expenditures on "non-economic" matters like defense and, one of the main factors - the expected reproduction rate of the population.

The policies and means for carrying out the plan should be directed mainly at diverting resources away from consumption to development. This calls for both raising the rate of saving in the economy and directing unproductive private savings (like acquisition of gold) to productive investment. No young country can save enough for its development; it therefore must raise foreign capital - by receiving international loans or grants. The government's policy regarding its attitude to private or public foreign investors must also be considered while preparing a plan.

The tax system and its effect on current production and on development, the wage and profit policy, the rate of unemployment tolerated, the agrarian policy, the size of public expenditure on health, education, social welfare, etc, the methods of encouraging exports and the policy regarding imports are only some of the no less decisive policy matters bearing a great deal of influence on economic development.

Apart from the general development program, specific ones should be prepared for the various sectors. In doing this the following steps are recommended:

a. It should be born in mind that consumers allocate additional (future) expenditure differently to the way they spent the former.
b. Foreign demand for the country's exports should be estimated.
c. It must be decided which of the required goods are to be supplied domestically and which - by import. (A warning is mentioned here against a common tendency to yearn for self sufficiency, even at the cost of economic efficiency).
d. Investment programs should be prepared not only for new and existing productive enterprises, but for the "infra-structure" (like water and power supply, transportation, etc.) as well.
e. A scale of priorities as to investments must be set up - in case of a contraction in the possibilities of actually carrying out the investments planned.

A national economy is not developed with investment in machinery and buildings alone - it needs investment in human capital too. This is done by allowing minimum levels of health and education to all the population, as well as a vocational training of workers for carrying out the program. This investment in human assets quite often "pays off" no less than the one in physical production assets.

Improving a country's administration and actively encouraging all enterpreunership are two more instruments relating to problems of human capital which have to be taken care of.

Eventually, two last points should be stressed. First: it is a great mistake simply to imitate development programs of other countries, since each country has its own specific needs to be taken care of. Second: a plan - even the best - is merely an indispensible frame-work, it cannot ensure the desirable development without the carrying out of efficient policies by the government with the full cooperation of the public.

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